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Memorandum

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Federal Communications Commission
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DATE: December 15, 2004

REPLY TO

ATTN OF: Ted Burmeister
Telecommunications Access Policy Division
Wireline Competition Bureau
445 12th St., S.W., Room 5-B438
Washington, DC 20554

SUBJECT: CC Docket No. 96-45

TO: Ms. Marlene Dortch
Secretary
445 12th St., S.W., Room TWB-204
Washington, DC 20554

Please place this memorandum and the attached document in the record of CC Docket No. 96-45.

The attached document reflects a correction made to the transcript of the Federal-State Joint Board on Universal Service's November 17, 2004, filed in this record on December 8, 2004. Specifically, the corrected transcript pages show that three questions on pages 87 through 89 were posed by Commissioner Bob Nelson, rather than Consumer Advocate Billy Jack Gregg.

If you require any further information, please contact me at (202) 418-7389. Thank you for your assistance.

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1 real appeals of this proposal is that it does
2 give cost-reducing incentives. But whether or
3 not that's what you want, I mean, we all think
4 about the good kinds of cost-reducing
5 incentives, which are to avoid waste and
6 inefficiency. Some of the cost reduction
7 might take the form of not rolling out new
8 services well in advance of demand, which many
9 rural carriers have done. So, I'm not
10 entirely sure that maximizing cost reducing
11 incentives is always a wise thing to do.

12 But on the face of it, I think that
13 does address a lot of the concerns. And for
14 all practical purposes, we are doing that
15 today except not on a carrier level. In terms
16 of the whole fund, it is indexed to inflation,
17 and the fund is not allowed to grow -- you
18 know, we re-initialize the cap, but it's still
19 capped.

20 COMMISSIONER NELSON: Should this
21 be applied to all ETCs in the area, though?

22 DR. LEHMAN: I'll deal with that in
23 the second panel, because I don't believe this
24 is the basis for the competitive ETCs that are
25 sitting here today.

1 COMMISSIONER NELSON: Mr.

2 Reynolds?

3 MR. REYNOLDS: I think one of the
4 things with -- I guess I regard the indexing
5 mechanism as unnecessary just from the
6 standpoint that the embedded cost mechanism
7 that's out there right now is self-correcting.

8 I want to circle back to something
9 that Mr. Weller said relative to the
10 efficiencies that come with holding companies.
11 Most of the operating costs associated with
12 high-cost loops exist at the operating company
13 entity. So, when you've got multiple entities
14 within a state, the efficiencies are not
15 happening in these non-contiguous areas. I
16 think the efficiencies that happen in
17 corporate operation expense exists back at the
18 holding company level. That flows down
19 through the mechanism, so in that sense it's
20 almost self-correcting.

21 It would probably be interesting to
22 look and see over time how the rural companies
23 on an embedded cost methodology have
24 performed. I know that just from dealing with
25 companies such as CenturyTel and AllTel that

1 they're not even hitting the corporate
2 operating expense limits right now. So, that
3 cap is, to a certain extent, meaningless and
4 those efficiencies are flowing through. So, I
5 think that going to an indexing approach is
6 unnecessary at this point in time.

7 COMMISSIONER NELSON: Joel?

8 MR. LUBIN: I wanted to clarify a
9 couple points and also ask Dennis a question
10 in terms of his indexing approach, because
11 AT&T also put forward an indexing. And I
12 don't know if it's the same, so I'm going to
13 describe what we talked about and so how
14 parties react.

15 But for me the dilemma here is that
16 the incumbent rural telcos are rate-of-return
17 regulated. And when you are rate-of-return
18 regulated and then you have, let's say, 1300
19 study areas, trying to figure out either a
20 price-cap mechanism or a forward-looking
21 costing tool for the diversity and richness of
22 the 1300 rural study areas, is a very
23 complicated process, whether it's a model or
24 whether it's a price cap. And so, right now
25 the way in which they're regulated is rate of